

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
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NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leon Zmolek	Trustee	December 2004
Judy A. McCarville	Trustee	December 2005
Jim Gran(Chair)	Trustee	December 2007
L.D. Palmer, II	Manager	Indefinite

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

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INDEPENDENT AUDITOR'S REPORT

Board of Trustee
Newton Municipal Waterworks
Newton, Iowa 50208

We have audited the accompanying financial statements of the business-type activities, listed as exhibits in the table of contents of this report, of the Newton Municipal Waterworks, Newton, Iowa, as of June 30, 2004 and for the year then ended. These financial statements are the responsibility of Newton Municipal Waterworks management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements reflect capital assets and depreciation thereon based upon appraisal costs, which, in our opinion is not in accordance with U.S. generally accepted accounting principles.

In our opinion, except for the possible effects of an adjustment, if any, to capital assets and depreciation, had we been able to examine adequate records regarding their historical cost, the aforementioned financial statements present fairly in all material respects, the financial position of the Newton Municipal Waterworks, Newton, Iowa at June 30, 2004 and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 6, 2004 on our consideration of the Newton Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the aforementioned financial statements taken as whole. The supplemental information included in Schedules 1 through 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 6, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton Municipal Waterworks provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2004 FINANCIAL HIGHLIGHTS

- ♦ Newton Municipal Waterworks revenue from operations decreased \$83,418 from fiscal year 2003(FY 03). Non-operating revenues decreased approximately \$65,737 from FY 03, primarily the recognition of the gain due to the sale of capital assets.
- ♦ Newton Municipal Waterworks program expenses increased \$136,095 from \$1,794,456 in FY 03 to \$ 1,930,551 in fiscal year 2004(FY 04).
- ♦ Newton Municipal Waterworks net assets increased \$34,925 from FY 03.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the governments financial activities.

The Financial Statements consists of a statement of net assets and a statement of revenues, expenses and changes in net assets. These provide information about the activities of Newton Municipal Waterworks as a whole and presents an overall view of the Waterworks finances.

The remaining statements provide financial information about activities for which Newton Municipal Waterworks acts solely.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE WATERWORKS AS A WHOLE

Net assets – Figure A-1 below provides a summary of the Waterworks’ net assets for the year ended June 30, 2004 compared to 2003.

Figure A-1
Condensed Statement of Net Assets

	Business-type Activities		Total Change
	2004	2003	2003-04
Current and other assets	\$ 701,771	\$ 790,910	-11.27%
Capital assets	5,154,483	5,094,611	1.18%
Total assets	5,856,254	5,885,521	-0.50%
Long-term obligations	1,292,745	1,366,075	-5.37%
Other liabilities	98,754	86,616	14.01%
Total liabilities	1,391,499	1,452,691	-4.21%
Net assets:			
Invested in capital assets, net of related debt	3,807,911	3,813,611	-0.15%
Unrestricted	659,844	619,219	6.56%
Total net assets	\$ 4,467,755	\$ 4,432,830	0.79%

Changes in net assets – Figure A-2 shows the changes in net assets for the year ended June 30, 2004 compared to 2003.

Figure A-2
Changes of Net Assets

	Business-type Activities		Total Change
	2004	2003	2003-04
Operating revenues:			
Charges for service and sales	\$ 1,894,948	1,877,267	0.94%
Miscellaneous	50,107	48,452	3.42%
Total operating revenues	1,945,055	1,925,719	1.00%
Operating expenses:			
Home and Community Environment Program	1,877,198	1,794,456	4.61%
Total operating expenses	1,877,198	1,794,456	4.61%
Net operating income	67,857	131,263	-48.30%
Non-operating revenue(expenses):			
Interest expense	(53,353)	(55,099)	-3.17%
Gain on disposal of assets	0	77,087	-100.00%
Miscellaneous revenue	20,421	46,088	-55.69%
Total non-operating revenue(expense)	(32,932)	68,076	-148.38%
Change in net assets	\$ 34,925	199,339	-82.48%

In figure A-2, Newton Municipal Waterworks shows the changes in net assets for the year ended June 30, 2004 compared to 2003. These changes were due to the disposal of a building sold to the City of Newton, as well as a decrease in miscellaneous revenues.

Business-Type Activities

Revenues of the Waterworks activities were \$1,965,476 and expenses of \$1,930,551. Revenues of these activities were comprised of charges for service, investment income, and miscellaneous income.

During the year ended June 30, 2004, the Waterworks increase water rates July 2003 as part of a three-year plan. This increase resulted in increased revenue which will be used for operating expenses.

FINANCIAL ANALYSIS OF THE WATERWORKS FUNDS

As previously, noted Waterworks uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the Waterworks completed the year, it reported net assets of \$4,467,755, an increase over last year's ending balances of \$4,432,830. However, the primary reason for the increase in balance in fiscal 2004 is due to well-managed finances and budget controls in place.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Waterworks' Board of directors annually adopts a budget following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget is prepared on the accrual basis.

Legal Budgetary Highlights

The Waterworks' total actual receipts were approximately \$3,800 less than the total budgeted receipts, a variance of 2%.

Total expenditures were less than budgeted due primarily to management control of expenditures to try to offset lower than expected revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Waterworks had invested \$5,154,483, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment and transportation equipment. This amount represents a net increase of 1.2% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$292,259.

The largest change in capital asset activity during the year occurred in the buildings and system category. The buildings and systems totaled \$4,164,051 at June 30, 2004, compared to \$4,088,156 reported at June 30, 2003. This increase resulted from capital improvements during the year.

Figure A-3
Capital Assets, Net of Depreciation

	Business-type Activities		Total Change
	2003	2004	2003-04
Land	\$ 289,677	\$ 289,677	0.00%
Construction in Progress	135,063	134,572	-0.36%
Buildings and system	4,088,156	4,164,051	1.86%
Improvements other than buildings	8063	7781	-3.50%
Machinery and equipment	573,652	558,402	-2.66%
Total	\$ 5,094,611	\$ 5,154,483	1.18%

Long-Term Debt

At June 30, 2004, the Waterworks had \$1,292,745 in long-term debt outstanding. This represents a decrease of approximately 5.7% from last year. More detailed information about the Waterworks' long-term liabilities is available in Note 3 to the financial statements.

In July 2002, the Waterworks authorized the issuance of \$275,000 in capital loan notes to pay for construction of a new maintenance garage. Planning for the project started in fiscal 2002 and the notes were issued in fiscal 2003. Of these capital loan notes, \$225,000 was outstanding at year end.

Waterworks also has total outstanding revenue bonds of \$987,000, as well as \$80,745 in advances for construction projects.

FACTORS BEARING ON THE WATERWORKS' FUTURE

At the time these financial statements were prepared and audited, the Waterworks was aware of existing circumstances that could affect its financial health in the future:

- ♦ Implementation of a rate increase effective July 2004, as part of its three-year plan will be put in place.
- ♦ The largest manufacturer in Newton has significantly reduced the volume of water consumption. The fiscal year 2004-05 budget has been adjusted downward in response to the volume expected, based on this years decreased usage.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This report is designated to provided the citizens, customers, investors and creditors with a general overview of the finances and to demonstrate the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial

information, contact LD Palmer, Manager, Newton Municipal Waterworks, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

Exhibit A

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 448,462
Restricted sinking fund	8,455
Receivables (net of allowance for uncollectibles)	147,974
Inventory	96,880
Total current assets	<u>701,771</u>

Non-current assets:

Capital assets, net of accumulated depreciation:

Property, plant and equipment	5,019,911
Construction in progress	134,572
Total non-current assets	<u>5,154,483</u>
Total assets	<u>5,856,254</u>

LIABILITIES

Current liabilities:

Accounts payable and other current liabilities	95,754
Total current liabilities	<u>95,754</u>

Noncurrent liabilities:

Due within one year	71,000
Due in more than one year	1,141,000
Restricted for:	
Customer advances for construction	80,745
Total noncurrent liabilities	<u>1,292,745</u>
Total liabilities	<u>1,388,499</u>

NET ASSETS

Investment in capital assets, net of related debt	3,942,483
Unreserved	525,272
Total net assets	<u>\$ 4,467,755</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

Exhibit B

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

OPERATING REVENUES	
Charges for Service	\$ 1,894,948
Miscellaneous	50,107
Total operating revenues	<u>1,945,055</u>
OPERATING EXPENSES	
Home and Community Environment Program:	
Plant:	
Operations expenses	638,825
Maintenance expenses	98,975
Distribution:	
Operations expenses	254,641
Maintenance expenses	45,603
Administrative and general expenses	546,895
Depreciation	292,259
Total operating expenses	<u>1,877,198</u>
Operating income	<u>67,857</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(53,353)
Miscellaneous revenue	20,421
Total non-operating revenue (expenses)	<u>(32,932)</u>
Change in net assets	34,925
Total net assets - beginning	<u>4,432,830</u>
Total net assets - ending	<u>\$ 4,467,755</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

Exhibit C

NEWTON MUNICIPAL WATERWORKS
COMPARISON OF TOTAL REVENUES, EXPENSES AND CHANGES IN BALANCES
ACTUAL TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2004

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for service	\$ 1,894,948	\$ 1,898,762	\$ (3,814)
Miscellaneous	50,107	50,133	(26)
TOTAL REVENUES	1,945,055	1,948,895	(3,840)
EXPENSES			
BUSINESS-TYPE			
Water department	1,584,939	1,538,449	(46,490)
CAPITAL ASSETS			
Depreciation	292,259	300,000	7,741
TOTAL EXPENSES	1,877,198	1,838,449	(38,749)
OTHER			
Non-operating income	20,421	16,517	3,904
Non-operating expense	(53,353)	(55,642)	2,289
TOTAL OTHER	(32,932)	(39,125)	6,193
NET	34,925	\$ 71,321	\$ (41,102)
BALANCE BEGINNING OF YEAR	4,432,830		
BALANCE END OF YEAR	\$ 4,467,755		

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 1,892,282
Payments to suppliers	(796,563)
Payments to employees	(764,964)
Other receipts	50,107
Net cash provided by operating activities	<u>380,862</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(355,064)
Loss on disposal of assets	2,933
Principal paid on capital debt	(69,000)
Interest paid on capital debt	(53,353)
Other receipts	13,863
Net increase in restricted accounts	(818)
Net cash used by capital and related financing activities	<u>(461,439)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	6,558
Net cash provided by investing activities	<u>6,558</u>
Net decrease in cash and cash equivalents	(74,019)
Balance - beginning of the year	<u>522,481</u>
Balance - end of year	<u>\$ 448,462</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 67,857
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	292,259
Decrease in Accounts Receivable	(2,666)
Decrease in Inventory	18,604
Increase in Meter Deposits Payable	244
Increase in Accounts Payable	2,299
Increase in Accrued Compensated Absences Payable	6,595
Decrease in Construction Advances	(4,330)

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 380,862</u>
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SUPPLEMENTAL

The Waterworks' considers all highly liquid investments with maturity of three months or less to be "cash equivalents".

Interest	\$ 53,353
Taxes	\$ 0

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1

Summary of Significant Accounting Policies

The Newton Waterworks is a municipal utility of the City of Newton located in Jasper County. It was first incorporated in 1903 and is operated under Chapter 383 of the code of Iowa and the Newton City Code. The Waterworks operates with a General Manager and Board of Trustee's. The Board is appointed to six year terms on a staggered basis by the mayor and approved by the City Council, however, they are not a component unit of the city. The Waterworks provides full water service to the Cities of Newton and Lambs Grove.

A. Reporting Entity

The financial statements include all the funds of the Newton Municipal Waterworks. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the Waterwork officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters. The Newton Municipal Waterworks has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The effects of interfund activity has been removed from these statements. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, equity, revenues and expenditures. The various funds are presented as follows in the financial statements.

Enterprise Funds

Waterworks

The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Capital Assets

This fund is utilized to account for all capital assets. These capital assets are included at amounts appraised by an independent engineering firm as of June 30, 1983 plus subsequent additions at cost, less retirements through June 30, 2004.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of the Newton Municipal Waterworks are prepared on an accrual basis which includes capital assets, trade receivables, and trade payables. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

D. Assets, Liabilities and Fund Equity

Cash, and Cash Equivalents - Cash balances are invested in savings which yield interest. Investments in certificates of deposits are stated at fair value.

Accounts Receivable - Accounts receivable from customers comprise the major portion of receivables.

Allowance for Doubtful Accounts - Represents a contra account to the recognition of the accounts receivables as revenues.

Inventory - Inventories are valued at cost using the first-in, first-out method. Waterworks maintains a perpetual inventory, however, physical counts are made on an annual basis and adjusted to actual.

Construction in Progress - Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, costs relating hereto are transferred to an asset. Upon determination that a project will be abandoned, the related costs are charged to expense.

Advances for Construction - Represent amounts which have been collected for construction of assets to serve the customers. The advances are refundable.

Restricted Assets - Certain proceeds of the Waterworks' enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bonds covenants. The "restricted sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months.

Capital Assets - Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extends assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	15-20
System infrastructure	10-50
Vehicles	10
Office equipment	5-15
Computer equipment	5

Compensated absences - It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the financial statements.

Note 2

Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Waterworks Board annually adopts a budget on an accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of expenditures, known as functions, not by fund or fund type. Applicable functions of the Waterworks is business-type activities.

NOTE 3

Detailed Notes

A. Deposits and Investments

The Newton Waterworks deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Waterworks of the Waterworks agent in the Waterworks name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Newton Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Newton Waterworks Board and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected

repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

Newton Waterworks currently invests in a savings account and certificates of deposit that are considered cash in bank due to their short-term maturity values of three months or less as of June 30, 2004.

B. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assts, not being depreciated:				
Land	\$ 289,677	0	0	289,677
Construction in progress	135,063	0	491	134,572
Total capital assets, not being depreciated	424,740	0	491	424,249
Capital assets, being depreciated:				
Buildings and system	8,802,582	203,481	19,517	8,986,546
Improvements other than buildings	12,338	0	0	12,338
Machinery and equipment	1,878,516	151,583	22,449	2,007,650
Total capital assets being depreciated	10,693,436	355,064	41,966	11,006,534
Less accumulated depreciation for:				
Buildings and system	(4,714,426)	(127,586)	(19,517)	(4,822,495)
Improvements other than buildings	(4,275)	(282)	0	(4,557)
Machinery and equipment	(1,304,864)	(164,391)	(20,007)	(1,449,248)
Total accumulated depreciation	(6,023,565)	(292,259)	(39,524)	(6,276,300)
Total capital assets, being depreciated, net	4,669,871	62,805	2,442	4,730,234
Business-type activities capital assets, net	\$ 5,094,611	62,805	2,933	5,154,483

C. Long-term Debt

Revenue Bonds

The Waterworks issued bonds where the government pledges income derived from anticipated revenues. The original amount of revenue bonds issued in prior years was \$1,156,000. Revenue bonds outstanding at year end are as follows:

Year Ending June 30,	Bond Issue of February 2, 2001		
	Principal	Interest	Total
2005	\$ 46,000	37,901	83,901
2006	48,000	36,134	84,134
2007	49,000	34,291	83,291
2008	51,000	32,410	83,410
2009	53,000	30,451	83,451
2010	55,000	28,416	83,416
2011	57,000	26,304	83,304
2012	60,000	24,115	84,115
2013	62,000	21,811	83,811
2014	64,000	19,430	83,430
2015	67,000	16,973	83,973
2016	69,000	14,400	83,400
2017	72,000	11,750	83,750
2018	75,000	8,986	83,986
2019	78,000	6,105	84,105
2020	81,000	3,110	84,110
Total	\$ 987,000	352,587	1,339,587

Capital Loan Notes

The Waterworks issued capital loan notes to construct a new maintenance garage. The principal and interest are payable from the revenue from operations of the Waterworks. The details of the Waterworks' capital loan note indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 2, 2002		
	Principal	Interest	Total
2005	\$ 25,000	11,925	36,925
2006	25,000	10,600	35,600
2007	25,000	9,275	34,275
2008	30,000	7,950	37,950
2009	30,000	6,360	36,360
2010	30,000	4,770	34,770
2011	30,000	3,180	33,180
2012	30,000	1,590	31,590
Total	\$ 225,000	55,650	280,650

Changes in Long-term Liabilities

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	\$ 1,031,000	0	44,000	987,000	46,000
Capital Loan Notes	250,000	0	25,000	225,000	25,000
Advances for Construction	85,075	0	4,330	80,745	0
Total	\$ 1,366,075	0	73,330	1,292,745	71,000

NOTE 4

Other Information

A. Risk Management

The Newton Municipal Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Pension and Retirement Benefits

The Newton Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$35,925, \$34,169, and \$34,244, respectively, equal to the required contributions for each year.

OTHER FINANCIAL INFORMATION

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004
ENTERPRISE FUND

Schedule 1

	ACTUAL
	2004
OPERATIONS REVENUES:	
Charges for Service:	
Sale of Water	\$ 1,803,425
Service Charges	7,875
Jobbing Income	6,742
Sewer Billing Income	76,906
	1,894,948
Other:	
Miscellaneous	50,107
Total Revenues from Operations	1,945,055
OPERATIONS EXPENSES:	
PLANT:	
Operations:	
Salaries	203,603
FICA	15,694
IPERS	11,683
Health Insurance	35,810
Laboratory	4,538
Lime	97,365
Chlorine	27,976
Hydroflousilic Acid	8,338
Soda Ash	31,184
Carbon Dioxide	16,951
Polymer	3,951
Poly-Phosphate	4,110
Supplies and Expenses	9,326
Generator	3,464
Power:	
Primary	117,070
Secondary	35,379
Standby	3,850
Heating:	
Primary	6,942
Secondary	1,591
TOTAL OPERATIONS	638,825
Maintenance:	
Repairs and Maintenance:	
Pumping Equipment	660
Wells	16,382
Buildings	12,383
Treatment Equipment	4,554
Maintenance of Generator	6,852
Vehicles and Equipment	5,900
Sludge Use Study	5,000
Lagoon Maintenance	33,818
Maintenance of Grounds	5,121
Water Tower Maintenance	8,305
TOTAL MAINTENANCE	98,975
TOTAL PLANT	737,800

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004
ENTERPRISE FUND

Schedule 1

	ACTUAL
	2004
DISTRIBUTION:	
Operations:	
Salaries	140,319
On Call	5,340
FICA	12,308
IPERS	9,098
Health Insurance	29,470
Vehicle and Equipment	8,236
Maps and Records	48
Field Supplies and Expense	49,352
Operator Certification	470
TOTAL OPERATIONS	254,641
Maintenance:	
Mains	24,567
Meters	7,166
Valves and Equipment	7,351
Vehicles and Equipment	6,519
TOTAL MAINTENANCE	45,603
TOTAL DISTRIBUTION	300,244
ADMINISTRATION:	
Customer Accounting and Collecting:	
Salaries	81,439
FICA	6,230
IPERS	4,683
Health Insurance	24,871
Postage	22,999
Payments to Gas Company	60,552
Office Supplies	4,493
Equipment Maintenance	10,617
Building Maintenance	9,181
TOTAL ADMINISTRATION	225,065
General Administrative Costs:	
Management	175,982
Trustees	3,000
FICA	13,916
IPERS	10,461
Health Insurance	26,462
Risk Insurance	35,754
On-Call	1,528
Payroll Services	2,376
Publications	675
Legal Services	167
Dues and Subscriptions	3,728
Miscellaneous	2,111
DNR Fee	2,115
Rent and Leases	398
Safety	2,003
Phone Communications	12,645
Travel and Conference	1,665
Audit Expense	5,700

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004
ENTERPRISE FUND

Schedule 1

	<u>ACTUAL</u> <u>2004</u>
ADMINISTRATION (CONTINUED):	
General Administrative	
Costs (Continued):	
Uniforms and Shoes	4,060
Offices Supplies	2,237
Car Allowance	6,000
Consumer Confidence Reports	2,200
Merchandise and Resale Labor	4,118
Public Relations	2,529
TOTAL GENERAL ADMINISTRATION	<u>321,830</u>
TOTAL ADMINISTRATION	<u>546,895</u>
DEPRECIATION	<u>292,259</u>
TOTAL OPERATIONS EXPENSES	<u>1,877,198</u>
EXCESS OF OPERATING REVENUE OVER OPERATING EXPENSES	67,857
Other Revenues:	
Interest on Investments	6,413
Subdivision reimbursement	10,818
SRF Interest	145
Non-Operating Income	3,045
TOTAL OTHER REVENUES	<u>20,421</u>
Other Expenses:	
Interest expense	53,353
TOTAL OTHER EXPENSES	<u>53,353</u>
EXCESS OF REVENUES OVER EXPENSES	34,925
BALANCE BEGINNING OF YEAR	<u>4,432,830</u>
BALANCE END OF YEAR	<u>\$ 4,467,755</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>LOAN BALANCE</u>
DEPARTMENT OF NATURAL RESOURCES:			
IOWA DEPARTMENT OF NATURAL RESOURCES:			
DRINKING WATER STATE REVOLVING			
FUND PROGRAM	66.468	FS-50-99-DWSRF-015	\$ 987,000
TOTAL			\$ 987,000

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newton Municipal Waterworks and is presented in conformity with the accrual basis of accounting. The information on the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees
Newton Municipal Waterworks

We have audited the financial statements of Newton Municipal Waterworks as of and for the year ended June 30, 2004, and have issued our report thereon dated October 6, 2004. A qualified opinion was issued on the balance sheet due to the capital assets originally being reported at appraised value. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Newton Municipal Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not in all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting, would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and users of Newton Municipal Waterworks, and other parties to whom Newton Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newton Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, reading "Nolte, Cornman & Johnson" followed by a stylized flourish or initials.

NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 6, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Trustees
Newton Municipal Waterworks

Compliance

We have audited the compliance of Newton Municipal Waterworks with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Newton Municipal Waterworks' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Newton Municipal Waterworks' management. Our responsibility is to express an opinion on Newton Municipal Waterworks compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Municipal Waterworks' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Newton Municipal Waterworks' compliance with those requirements.


In our opinion, Newton Municipal Waterworks complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Newton Municipal Waterworks is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Newton Municipal Waterworks and other parties to whom Newton Municipal Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 6, 2004

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) A qualified opinion was issued on the financial statements, due to the capital assets reported at appraised value.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 66.468 – Drinking Water State Revolving Fund Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Municipal Waterworks did not qualify as a low-risk auditee.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

- IV-A-04 Official Depositories - A resolution naming official depositories has been adopted and is on file. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - Waterworks' disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- IV-C-04 Questionable Disbursements - We noted no disbursements for parties, banquets, or any other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the Waterworks and the officials and employees of the Waterworks during the year ended June 30, 2004.
- IV-F-04 Bond Coverage - Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board of Trustee Minutes - We noted no transactions that should have been approved in the trustee minutes.
- IV-H-04 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.
- IV-I-04 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.